FARMERS' NEWSLETTER

Cotton

October 80/C-16

The cotton harvest is in full swing across the Cotton Belt and it's adding up to the lowest cotton yield in nearly a quarter century. Yields are estimated at 419 pounds per harvested acre, a steep drop from last year's record 548 pounds. The crop is down 3 million bales, to about 11.6 million.

Low yields mean high production costs per pound and this puts pressure on you to get the highest possible price for your cotton. Many of you forward contracted some of this year's crop. Through September, an estimated one-third of this year's harvested acreage had been contracted.

If you still have cotton to sell, you must decide if prices look good now or if you think they'll turn higher later on. Consider these marketing options carefully:

- Sell or forward contract now. Prices are well above the loan rate. Farm prices averaged 74 cents a pound in September against a loan rate of 48 cents. If you get an offer above your production costs, you may want to sell some of your cotton now. Spot cotton prices have been volatile. They fell from about 91 cents a pound (SLM 1-1/16-inch cotton) in mid-September to 85 cents in mid-October.

- If you expect prices to improve, you may deliver your cotton now and fix the price at a later date by contracting on a "seller's call." This saves you storage costs.

- Sell now for cash and buy futures. In theory, this offsets your loss if prices turn up after you sell. If prices turn down, you'll lose on your futures transaction. Like the seller's call contract, this option

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LESS OUTPUT, BUT LOWER USE, TOO

Cotton: Upland and extra long staple	1978/79	1979/80	1980/81 projected	1980/81 prob. variab.[1]
		Million acres		
Area				
Planted	13.4	13.9	14.4	
Harvested	12.4	12.8	13.3	
Yield per harvested acre	421	548	419	
		Million 480-lb. bales		
Beginning stocks	5.3	4.0	3.0	
Production	10.9	14.6	11.6	+0.6 to -0.6
Supply, total	16.2	18.6	14.7	+0.6 to -0.6
Mill use	6.4	6.5	5.9	+0.5 to -0.5
Exports	6.2	9.2	6.0	+1.0 to -1.0
Use, total	12.5	15.7	11.9	+1.0 to -1.0
Difference unaccounted	.3	.1	.1	
Ending stocks	4.0	3.0	2.8	+1.0 to -0.5
Average farm price (cts./lb.)	58.4	[2]62.6	([3])	

[1] Chances are about 2 out of 3 that the outcome will fall within the indicated range. [2] Weighted average price for the first 8 months of the season. [3] USDA is prohibited from publishing cotton price projections. Note: Totals may not add due to rounding.

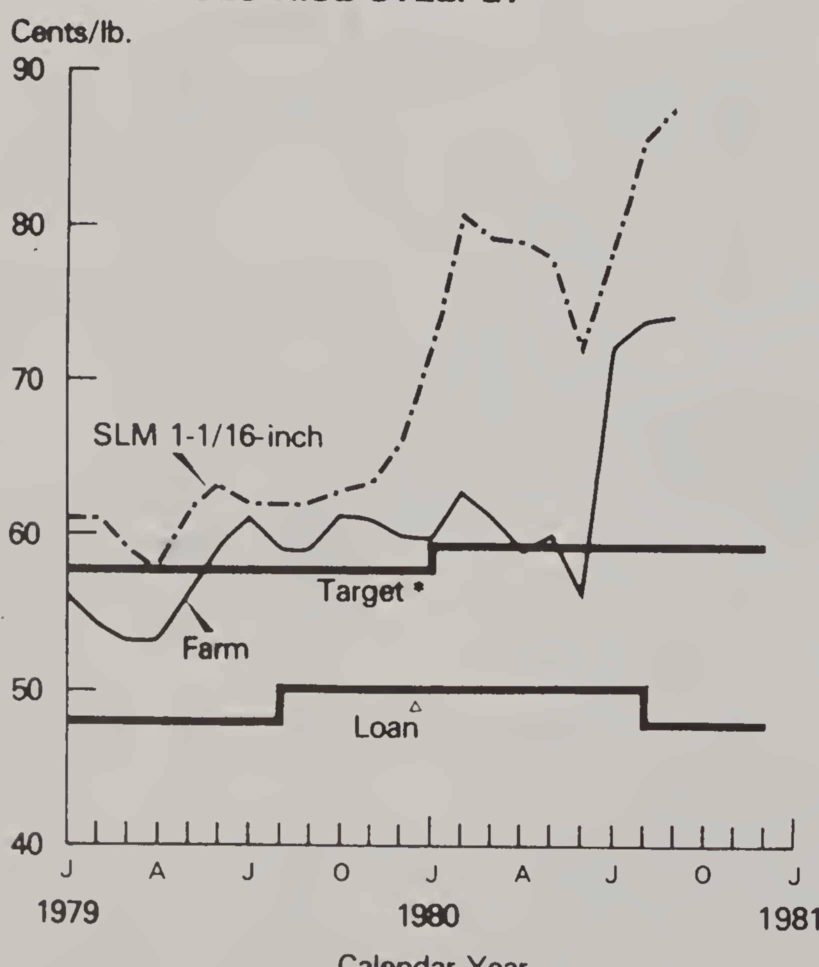
eliminates storage expenses. However, it's riskier.

- Government loan. If you don't want to sell at current prices, this may be the route to go. It's also a way of getting operating cash at an interest rate lower than the prime rate.

Don't forget the costs involved. The current interest rate is 11-1/2 percent. National average storage and insurance charges run around $1.40 per bale per month. This adds up to monthly charges of about $3.60 per bale, assuming a loan value of 48 cents a pound. For you to break even, cotton prices would have to go up at least that much each month you hold the loan--about 1-1/2 cents a pound every 2 months.

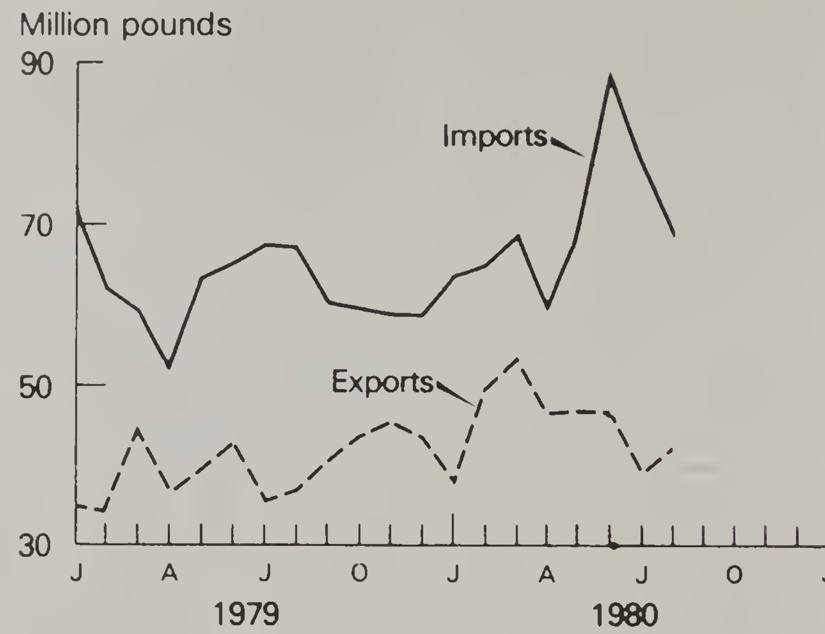
Although USDA is prohibited from forecasting cotton prices, we can lay out the supply and demand factors which will influence the future direction of prices. Here's a look at the price-making forces in the cotton market.

FARM PRICES RISE STEEPLY



* Target price is for calendar year.
△ SLM 1-1/16 inch at average location; for year beginning August 1.

COTTON TEXTILE TRADE DEFICIT TO WIDEN



Supplies Down Sharply

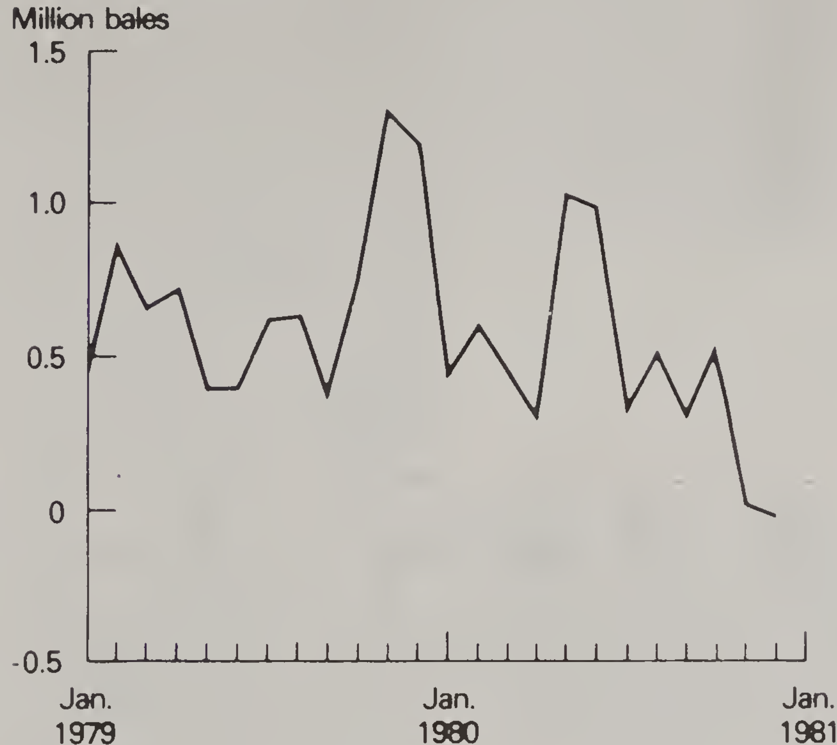
U.S. cotton supplies are estimated at 14.7 million bales, down considerably from last season's 18.6 million because of lower beginning stocks and the much smaller crop.

By October 1, only 1.3 million bales of this year's crop had been ginned. So the size of the 1980 crop is still somewhat uncertain. Based on historical differences between the October forecasts and final production, there is a good chance actual output will differ by no more than about 1/2 million bales from the October estimate of 11.6 million. Obviously, a drop in the production estimate would tend to strengthen prices and vice versa. The next estimate will be released November 10.

Law Triggers Special Import Quota

Because of September's high cotton prices, a special quota must soon be established that will raise the amount of upland cotton the U.S. can import by nearly 500,000 bales. This quota will be in effect for 90 days--in addition to the existing quota of 30,000 bales.

FOREIGN DEMAND FOR U.S. COTTON FALLS SHARPLY



The Food and Agriculture Act of 1977 requires the President to establish a special import quota whenever the average monthly spot price for SLM 1-1/16-inch cotton exceeds the average price for the preceding 36 months by 130 percent or more.

Watch for the announcement of the special quota. Although only a small ~~quantity is likely~~ to be imported, the effect on prices, if any, will be bearish.

Demand for U.S. Cotton Weakens. . .

We're likely to see reductions both in U.S. cotton exports and domestic mill use this season--combined use is forecast at 11.9 million bales, 25 percent below last year.

. . . As Export Sales Nosedive . . .

Since mid-May, net export sales of U.S. cotton (new sales minus cancellations) have fallen sharply, and in some weeks, cancellations have outnumbered new sales. As a result, the U.S. export commitment for 1980/81--exports plus outstanding sales--was around 3-1/2 million bales in early October, only slightly above the commitment on August 1, the beginning of the season.

For example, China, our biggest customer last season, had commitments for about 875,000 bales as of October 9. This was down from a commitment of just over 1 million bales on August 1.

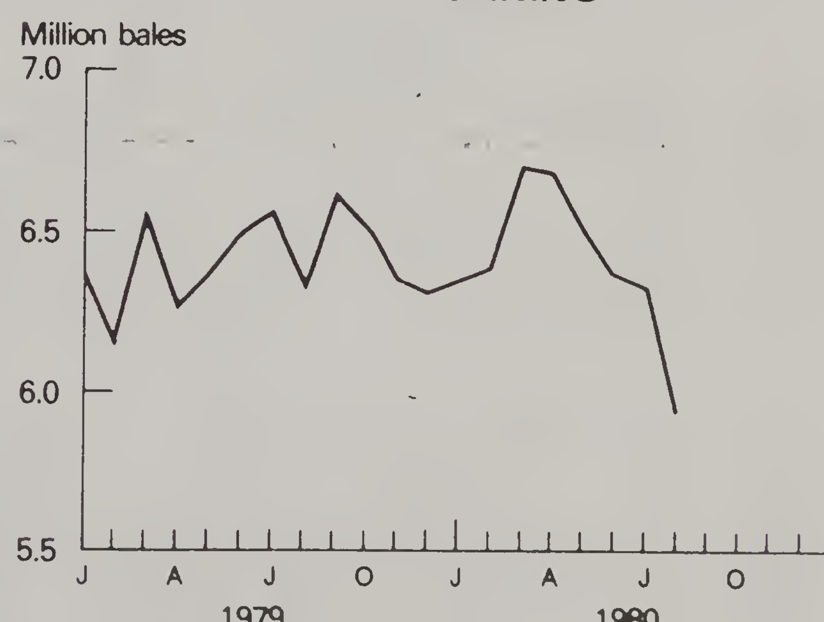
Why the slowdown and cancellations in U.S. export sales? For a few weeks, foreign cotton dropped 5 to 10 cents a pound below prices for comparable U.S. cotton. But recently, U.S. cotton has been more competitive.

For the current season, our exports could reach around 6 million bales--a good season by historical standards but well below last season's exceptional level. It's because of limited U.S. supplies, increased foreign production, and sluggish textile activity in Japan and Western Europe.

. . . And Domestic Mill Use Plunges

After running at a healthy rate throughout most of 1979 and 1980, cotton use by domestic textile mills has fallen sharply in recent months. On an annual basis, the August rate of use was only about 5.9 million bales, compared with

RATE OF MILL USE DECLINING



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6.3 to 6.7 million during the previous 6 months.

The sluggish U.S. economy, high cotton prices relative to polyester staple, and prospects for a worsening trade deficit in cotton textiles could limit mill use to about 5.9 million bales in 1980/81, down from 6.5 million last season.

In September, U.S. mills paid around 93 cents a pound for SLM 1-1/16-inch cotton, 15 cents more than for polyester. A year earlier, cotton was priced only 4 cents higher than polyester.

Stocks Lowest Since Early 1950's

Only 2.8 million bales may be left in U.S. cotton stocks next August 1, down slightly from this past August, and the fewest since 1952. With supplies tight, cotton prices will be particularly sensitive to economic developments and production estimates in coming months.

Your Turn To Speak Out

USDA wants your opinions and suggestions on provisions of the 1981 cotton program. Comment is sought by December 2 on these program questions:

- Should there be a set-aside or acreage diversion for 1981? If you favor either, what amount do you recommend? What should the diversion payment rate be?

- What are your recommended target price and national program acreage levels?

- If a set-aside is in effect, should there be a limitation on upland cotton planted acreage? If so, to what extent?

- Should compliance with the farm normal crop acreage be required as a condition of eligiblity for loans and payments?

- What should the voluntary percentage reduction from 1980 upland cotton acreage be in order to guarantee target price protection on total 1981 planted acreage?

Send comments to:

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